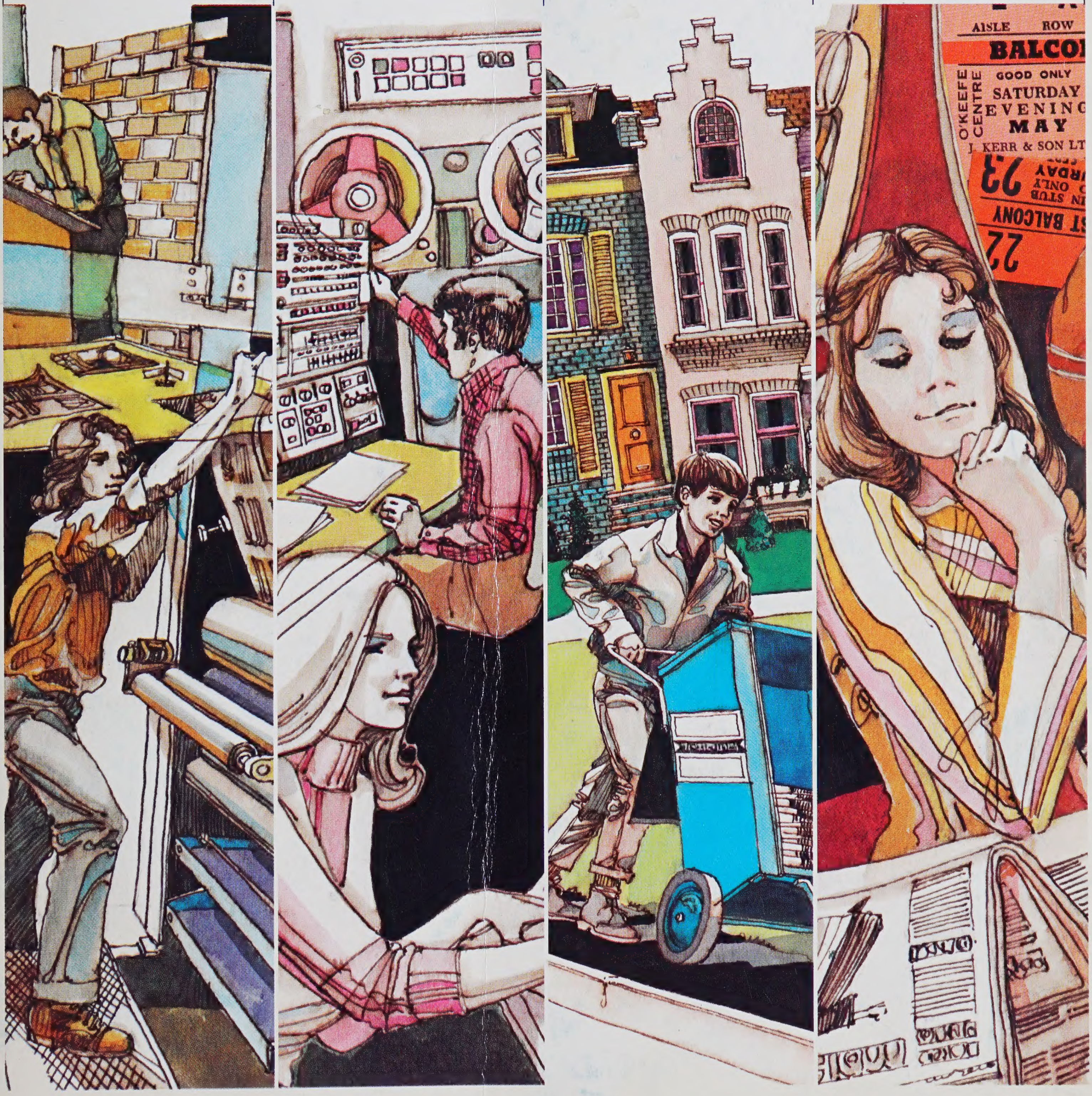
Nick
you might [illegible]
perspec item on the
Star's advertising revenue
and anything else that's
worthwhile. JS

Toronto Star Limited

Annual Report 1973

2-36



Toronto Star Limited

Report to Shareholders

Your Directors are pleased to submit the annual report of the Company for the fiscal year ended September 30, 1973.

Net income for 1973 increased by $2,471,000. Earnings per share, after reflecting a 3 for 1 stock split during the year, were up from 64¢ to 97¢.

During 1973 advertising revenue in The Star increased 18% with all major categories contributing to the gains. As in 1972, Retail and Classified Help Wanted advertising were especially strong. Average paid circulation was 4% higher over the year with particularly strong growth on Saturdays. Circulation revenue gained 6%.

Production costs rose rapidly during 1973 due both to increased volume and substantial increases in labor and newsprint costs. Union contracts negotiated through 1974 call for wage, salary and benefit increases in the order of 9% per annum. Newsprint prices increased 5% in 1973 and announcements of further increases well in excess of 10% will add substantially to costs in 1974 and raise paper and ink costs of each newspaper well above the wholesale price. Rental and property costs associated with our use of the former Telegram plant have now terminated and will provide some offset against rising expenses.

The increase in earnings over the past two years has been roughly in line with the increased scope of operations and additional investment in facilities. It is expected that the Company's future growth will continue at a more normal rate.

Subsidiary companies engaged in commercial printing and the publication of suburban newspapers reported improved results although the effect on consolidated earnings is as yet not significant. Similarly, Canadian Magazine, in which The Star holds a 50% equity interest, improved substantially on its 1972 operations.

In line with the Company's policy of improving its services to subscribers and advertisers, major changes were made in the last quarter of the fiscal year in the method of printing and distributing the paper. The Star's editorial staffs at Ottawa and Queen's Park were also enlarged to expand and improve coverage of national and provincial affairs.

Under the new printing system, feature and certain advertising sections of the paper are printed during the night and combined the next day with late news sections. This has improved the appearance and readability of the paper as well as the availability of color for advertising. To ensure on-time deliveries to home subscribers, and to accommodate advertising inserts more readily, new distribution depots were established throughout the metropolitan area and 375 part time workers were added to the staff to handle advertising inserts and transport papers to carriers' homes.

Press production is still well below rated capacity and repair and maintenance costs are a matter of concern. Press modifications now under way are expected to resolve some of these problems but it is unlikely that press speeds can be improved until newly designed folders have been installed early in 1974.

The Company is endeavoring to broaden its base in the communications field both through acquisitions and the expansion of existing services.

As of October 1972, the Company increased to 80% its shareholdings in the Mirror group of suburban newspapers, and in Newsweb Enterprise Limited, a web offset printing company, and the results of these operations are consolidated in detail for the first time.

We have concluded the purchase of a controlling interest in Comac Communications Limited, a publisher of specialized consumer magazines, and we have entered into an agreement to purchase 50% of Keeble Cable Television Limited, operators of cable systems in the Toronto area. This agreement is subject to the approval of the Canadian Radio-Television Commission.

The rapid growth and changes in our business during the past two years have required extraordinary efforts from Star employees. Their response has been excellent, as it has always been, and the Directors wish to express their thanks and appreciation to the staff for their splendid performance.

On behalf of the Board

Beland Honderich

President

Board of Directors

Beland H. Honderich
President and Publisher

Burnett M. Thall
Vice-President

Stewart A. Woods
Vice-President

Harry A. Hindmarsh
Secretary

William J. Campbell

Ruth Atkinson Hindmarsh

Hon. Walter L. Gordon

Alex J. MacIntosh

George B. Kimpton

Officers

William C. Rankin
Director of Finance and Administration

The Company

Toronto Star Limited is more than a newspaper. It is a communications company with a corporate and social responsibility to provide full and frank dissemination of news and opinion to the greatest number of people who can benefit from such a service.

The Toronto Star, for many years Canada's largest newspaper, is the cornerstone of this service and provides the base from which the Company can consolidate and expand its position in the total communications field.

The Company recognizes that its primary function of communicating information also meets a vital social objective. Citizens who are well informed of current events are better able to make useful judgments and form sound opinions. Their basic home management and purchase decisions are facilitated by the information they get from both the news and advertising columns of the Company's publications.

This alignment of corporate objectives with public responsibility is consistent with the policies established for The Star by its late builder-publisher, Joseph E. Atkinson.

The Company believes that the skills and experience it has gained in publishing The Star can be applied successfully to other enterprises in the communications field. Currently the Company is engaged in commercial printing and in publishing and distributing suburban newspapers, weekend supplements and consumer magazines. It also is seeking participation in the field of cable communications.

At the same time, the Company has made a major commitment to research and development to improve the production capabilities of The Toronto Star.

As it enters 1974, Toronto Star Limited is well positioned for further growth. A review of present operations and a summary of ongoing plans in each division follows.

The audience for The Star's news, opinion and information continues to grow. Weekday paid circulation exceeds half a million while Saturday paid circulation is well over 700,000. It is estimated that each copy of The Star is read by 1.25 million people on weekdays and almost 2 million on Saturdays.

The demands of serving more readers are a constant challenge to improve production and distribution capabilities.

There has been continuing heavy investment in production facilities and a sixth Crabtree-Vickers press, costing almost $4 million with ancillary equipment, was placed in operation July 30. This enabled The Star to consolidate printing of all copies of the newspaper at one location: the One Yonge Street plant, opened in early 1972.

With the start-up of the sixth press, a new system of printing and assembly of The Star, called straight run production, was put into effect. This system, together with earlier printing of certain sections of the paper containing feature material and classified advertising, enables The Star to provide a better product for readers and advertisers.

The straight run production system permits greater flexibility and availability in the use of color and more effective positioning of ads. It also allows positioning of regular features in the same part of the paper each day. Finally, and by no means least, it facilitates on-time delivery to readers.

The distribution system also has been improved and expanded. Depots have been established throughout the circulation area. In these, papers are assembled, counted and delivered to carrier homes according to computer-produced delivery lists. A total of 375 people, most of them part-time supervisors designated as carrier captains, have been added to the distribution network to ensure the functioning of the improved system.

The Company believes the expanded Star home delivery network could provide the base for development of yet other distribution services for advertisers and readers.

While the mechanics of newspaper production and delivery are critical to the successful continuation of the enterprise, a newspaper is a product of people about people.

The people at The Star recognize that in addition to their role of providing an essential information service, they have social responsibilities to the community. The sponsorship of public forums on current issues, help for the under-privileged, particularly children, sponsorship of sports events—the seeking and publishing of all shades of opinion, the services of Star Probe to help people find answers to problems, the maintenance of a reader's advocate in the newsroom—all these are long-standing practices at The Star.

The physical production of a daily newspaper is a massive and complicated process. This is the area where new technology offers the single greatest opportunity for performance improvement and cost reduction.

Toronto Star Limited continually is striving to find better ways to apply technology to the repetitive, mechanical, time-consuming tasks of newspaper production. A major purpose of these efforts is to give the people involved in the process more time and opportunity for creative assessment, judgment and review of content and quality.

For some time, The Star has been composing much of its news and advertising copy on computer-controlled linecasting machines. In addition, photocomposition is used to prepare, more quickly and accurately, advertising previously composed with the traditional "hot metal" process. Computers also play key roles in circulation and advertising billing and credit control, in mailing room functions and in accounting services.

Although not yet in use at The Star, computer technology now exists to handle electronically the translation of a reporter's or advertiser's typewritten words from copy paper to a photo image of a final printed page. An optical scanner can read typewritten copy and relay it to a computer. The computer will select the appropriate typeface and set type at speeds in excess of 1,500 lines per minute, as compared to 12 lines per minute using hot-lead casting Linotype machines.

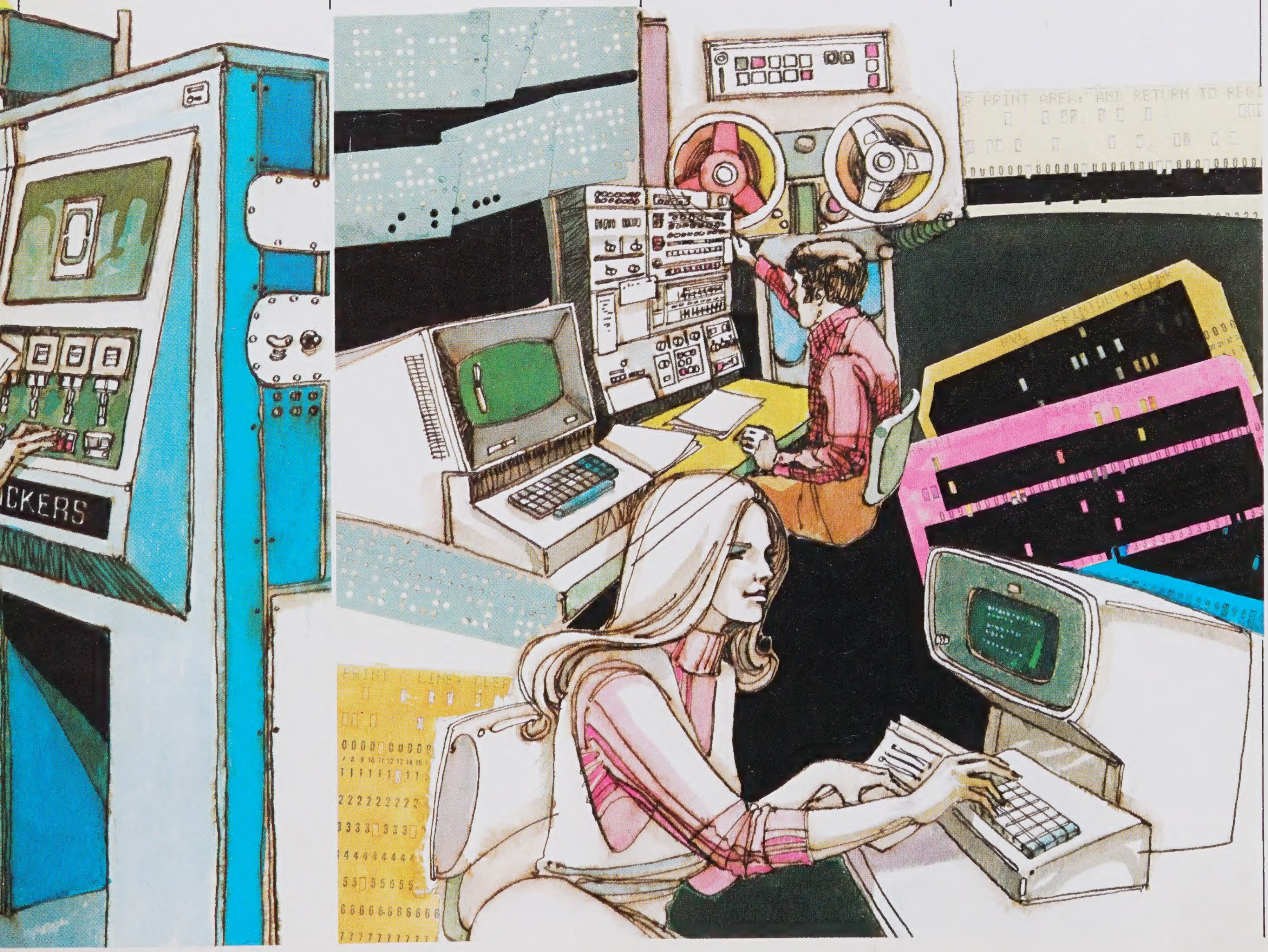
Video display units at the desks of editors and advertising managers can provide instant retrieval of typeset copy for better editing and headline composition.

Terminal operators viewing copy and layout formats can instruct the computer, using keyboard entries or a graphics-placement control device, to make changes, shift copy or advertisement locations and, in effect, compose an entire page. An editor will be able to control page content and format up to a few minutes before press time.

With all this equipment and knowledge now available, the missing factor is an integrated system which will apply the technology to large-circulation newspapers in practical fashion. Toronto Star Limited has joined with seven other North American publishers in a massive research and development program to produce such a system, with IBM as the prime contractor. It is the largest project undertaken by IBM Federal Systems Division since its work on the Apollo moon project.

Development is expected to take three years from the start of work on February 1, 1973. Personnel from the newspaper will be actively involved with IBM technicians in the design and test of the system so as to ensure its suitability to The Star environment.

In effective partnership, people and technology can provide more error-free newspapers, with improved content, produced at lower costs and with less fatigue and boredom for the employees involved.



Rotogravure Plant

The Company has identified a need among readers and advertisers for rotogravure magazines and merchandising supplements directed specifically to the Toronto metropolitan audience. These complement publications like The Canadian and Star Weekly, designed to reach a national audience.

Star Week, a TV and entertainment guide distributed each Saturday with The Star, is printed at a new rotogravure plant in the Town of Vaughan, near the junction of Highway 7 and Highway 400.

The plant's rotogravure presses also print SpectaColor pages for The Star and other newspapers and produce a full range of color folders, flyers and merchandising supplements for department stores and other major retailers, as well as national advertisers. Press runs go up to four million copies where cross-Canada distribution is involved.

Plans are underway for further expansion to meet rapidly increasing printing orders.

Web Offset Printing

The Company's daily newspaper and rotogravure printing plants are complemented by the web offset printing operations of Newsweb Enterprise Limited, located in a modern plant in North York.

With a 24-hour five-days-a-week operation, Newsweb handles all types of commercial printing, including the publishing of some 200 community, industrial and professional newspapers and newsletters. Since the new plant went into operation late in 1971, Newsweb also has handled the weekday printing of approximately one-third of the total circulation of the Toronto Sun.

Newsweb is an important part of the total capability which The Toronto Star offers advertisers for the production of all types of advertising inserts. Department store flyers have been produced in quantities up to 1.4 million for insertion in The Star and other papers, and for in-store distribution.

Print Marketing

Selling the total printing capability of the Company is the job of Star Print Sales. Whether it be long runs in full color where roto excels, or short regional runs with many changes where the web offset process offers greatest economy and flexibility, the Company is equipped to handle almost every type of newspaper supplement or commercial printing requirement.

Linked to printing capabilities in meeting the total marketing requirement of advertisers is the distribution network of The Star, second to the Post Office in size in the Toronto market.

A program is now underway to develop The Star delivery system to make possible home delivery of advertising inserts or other printed material to any combination of districts in the Toronto Census Metropolitan Area.

MetroSPAN Newspapers

Through its suburban newspapers, Toronto Star Limited is serving the requirements of residents and businesses in the rapidly growing communities surrounding the City of Toronto.

Each newspaper follows an independent editorial policy, but is represented in a central administrative and marketing organization, MetroSPAN Newspapers. Among other services, MetroSPAN offers national and large-chain advertisers selective marketing of their products and services in any combination of one or more of the eleven newspapers represented in the MetroSPAN group.

Newspapers in the group are: the Scarboro Mirror, North York Mirror, Etobicoke Guardian, New Toronto Advertiser, Weston-York Times, Mississauga Times, Oakville Daily Journal Record, Burlington Gazette, Aurora Banner, Richmond Hill Liberal and Woodbridge & Vaughan News.

The Canadian and Star Weekly

Southstar Publishers Limited was formed in 1965 in equal partnership with Southam Press Limited to publish The Canadian Magazine, a weekend rotogravure supplement distributed with The Star and 12 other Canadian newspapers, and The Star Weekly, a nationally distributed magazine. Canadian Homes is also published by Southstar as a quarterly supplement to The Star Weekly and The Canadian.

Through its interest in Southstar, Toronto Star Limited is a partner in Magnamedia Limited. This rotogravure marketing agent has significantly strengthened the leadership position of roto magazines in the consumer magazine field through its efforts in sales, research and merchandising.

Advertising expenditures in weekend roto magazines have been increasing annually since reaching a low point in 1967. Magnamedia figures show that The Canadian currently reaches approximately 75 per cent of all households in the Toronto market.

Specialty Magazines and Household Marketing Services

The Company's acquisition of the controlling interest in Comac Communications Limited, completed subsequent to the fiscal year-end, gives Toronto Star Limited participation in the growing field of controlled circulation magazines and in the provision of selective sampling and other marketing services to national merchandisers.

Comac publishes three magazines, Homemaker's Magazine, Madame au Foyer (a French edition of Homemaker's), and Quest, a magazine targeted at sophisticated urban males.

The two women's magazines have a combined circulation of 1,350,000 in major cities across Canada. Started in 1967, the success of these publications is reflected by a six times increase in advertising revenues during that time.

The first issue of Quest was published in May 1972. The magazine currently is distributed in six issues a year to 590,000 households in 12 major cities across Canada.

Comac also offers extensive marketing information services to manufacturers of nationally distributed products. Another of Comac's operating subsidiaries, Lee-Chapman Marketing Limited, provides a door-to-door distribution service.

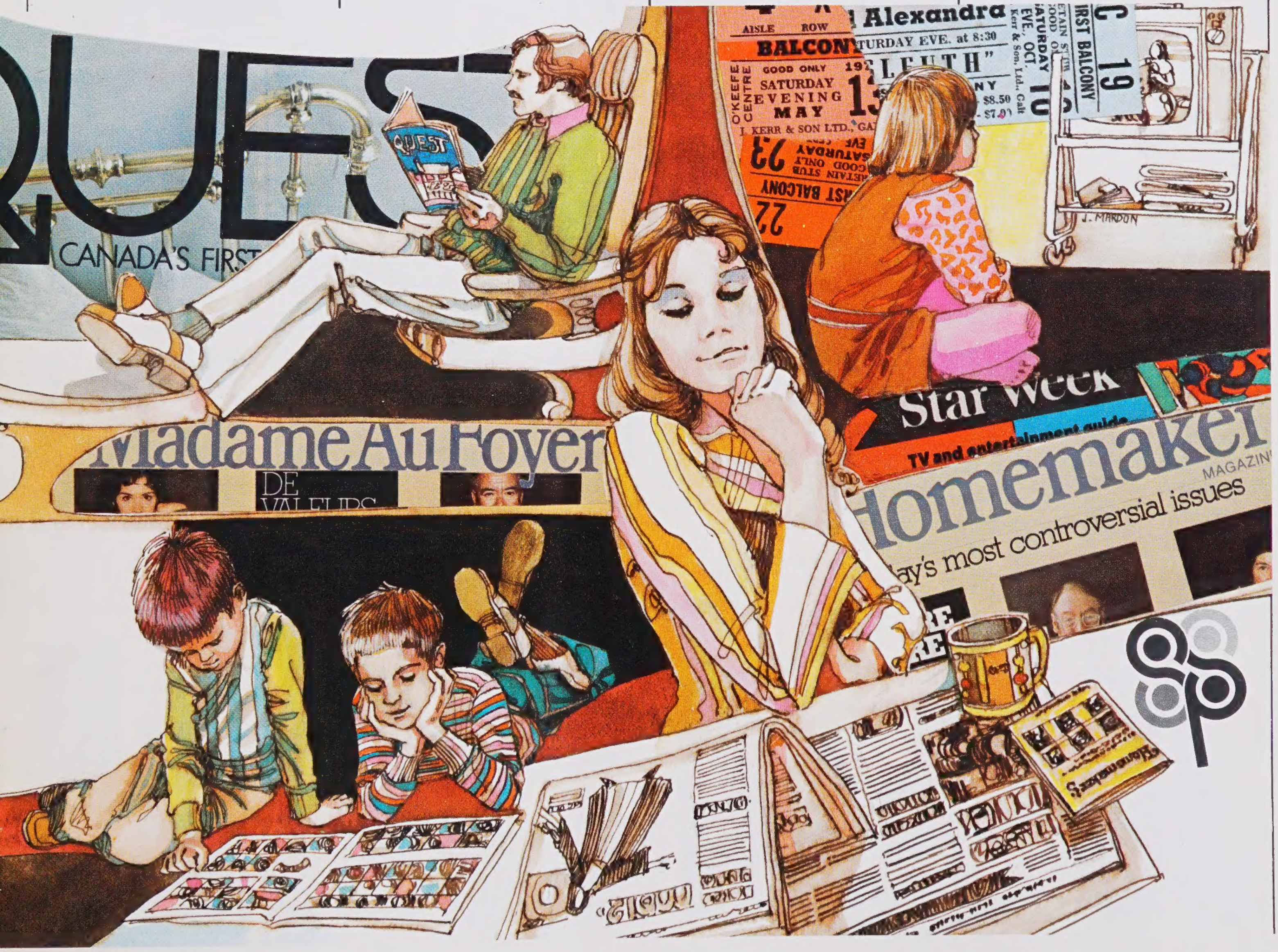
Toronto Star Limited hopes to increase its investment in Comac to as much as 100 per cent in the near future.

Cable Television

In the past 25 years major changes have occurred in the means of everyday communication. Newspapers, once dominant, now share their role with radio and television. Cable television has the potential of becoming a major communications medium and may well have a significant impact on newspapers.

The Company would like to participate in the development of cable television. The Star can contribute resources and accumulated experience as a communications company.

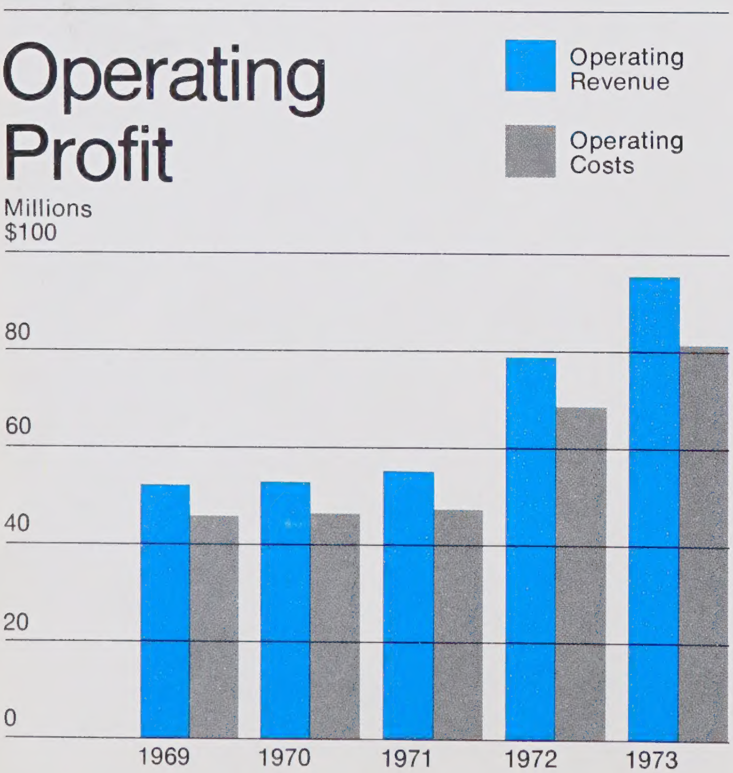
To enter this field, Toronto Star Limited sought a knowledgeable partner from the cable television industry and has made an agreement to purchase 50 per cent of the equity of Keeble Cable Television Limited, operators of cable systems in northwest Toronto and Mississauga. This agreement is subject to the approval of the Canadian Radio-Television Commission.

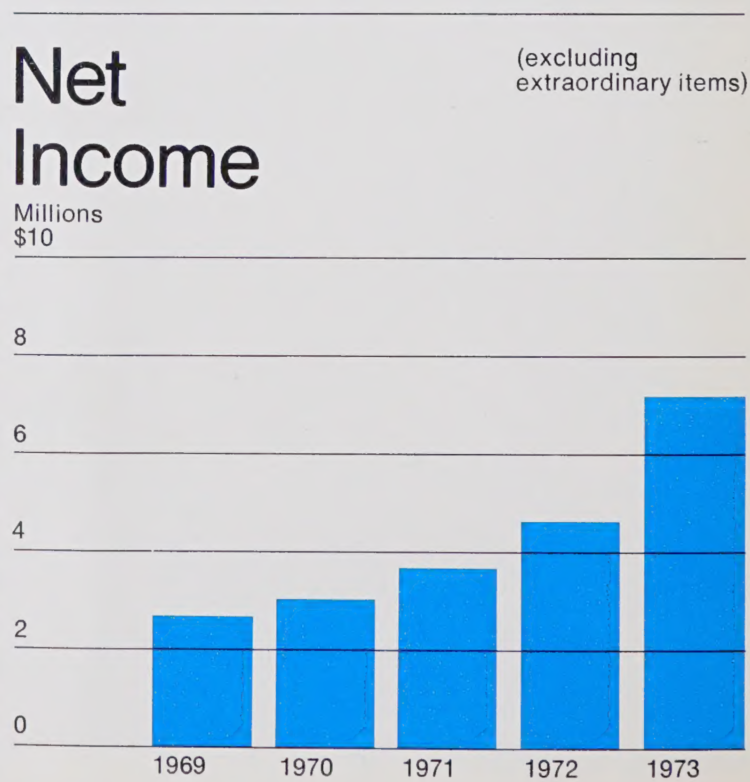


Five-year Operating Highlights

		1969	1970	1971	1972	**1973**
Earnings (thousands of dollars)	Operating revenue	$52,021	$52,868	$55,565	$79,424	**$94,781**
	Operating costs	45,831	46,292	47,687	68,858	**80,416**
	Operating profit	6,190	6,576	7,878	10,566	**14,365**
	Net financial expense	364	205	213	1,265	**367**
	Income before income taxes	5,826	6,371	7,665	9,301	**13,998**
	Income taxes	3,057	3,311	3,917	4,655	**6,881**
	Net income*	$ 2,769	$ 3,060	$ 3,748	$ 4,646	**$7,117**

*excluding extraordinary items





		1969	1970	1971	1972	**1973**
Per Share Data (adjusted for 1970 and 1973 stock splits)	Net income*	38¢	43¢	52¢	64¢	**97¢**
	Dividends	10¢	10¢	10¢	10¢	**15¢**
	Shareholders' equity†	$2.74	$3.07	$3.44	$3.98	**$4.80**

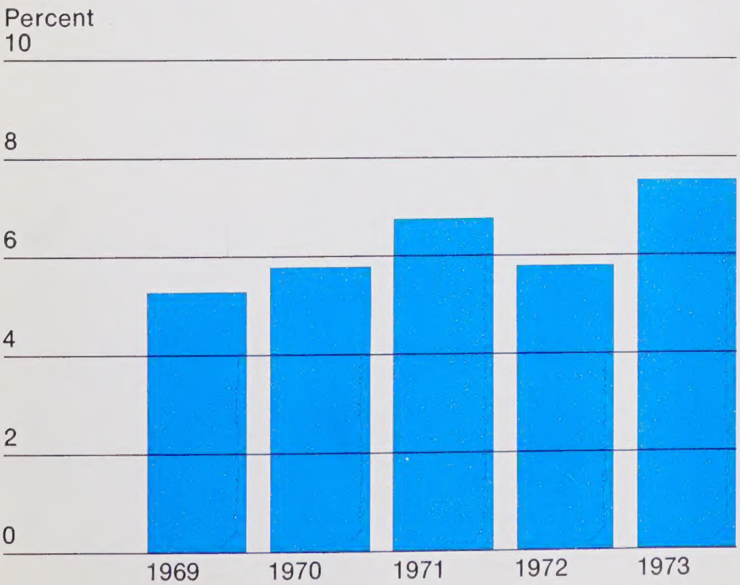
†excluding goodwill

		1969	1970	1971	1972	**1973**
Rate of Return	Net income* as a percent of operating revenue	5.3%	5.8%	6.7%	5.8%	**7.5%**

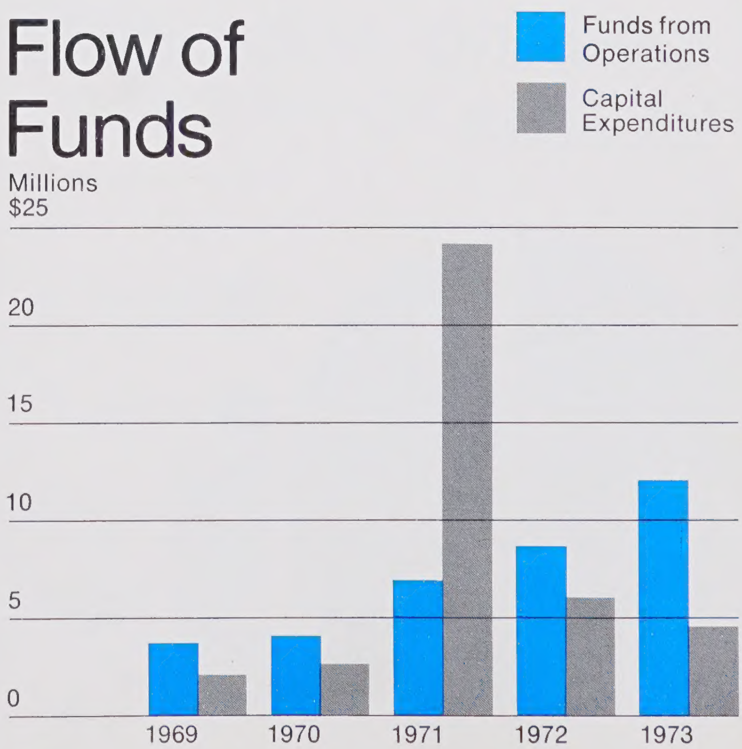
		1969	1970	1971	1972	**1973**
Flow of Funds (thousands of dollars)	Total funds from operations*	$3,640	$4,068	$ 6,962	$8,564	**$11,877**
	Capital expenditures					
	Fixed assets (net)	$1,874	$2,541	$12,143	$5,879	**$ 3,996**
	Other assets (net)		14	11,898	56	**514**
	Total capital expenditures	$1,874	$2,555	$24,041	$5,935	**$ 4,510**

*excluding extraordinary items

Rate of Return on Revenue



Flow of Funds

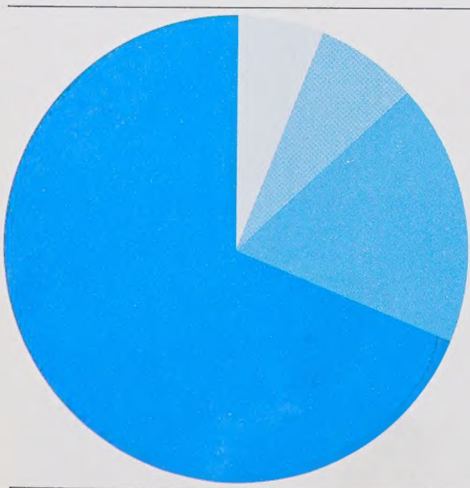


Five-year Operating Highlights

		1969	1970	1971	1972	**1973**
Operating Revenue (thousands of dollars)	The Star — advertising	$31,573	$32,568	$35,970	$55,328	**$65,130**
	— circulation	9,504	10,347	11,354	16,169	**17,062**
	Advertising and circulation — other	1,889	3,369	2,848	3,206	**5,857**
	Printing and other	9,055	6,584	5,393	4,721	**6,732**
	Total operating revenue	$52,021	$52,868	$55,565	$79,424	**$94,781**

		1969	1970	1971	1972	**1973**
Operating Costs (thousands of dollars)	Employee costs	$20,987	$21,943	$22,355	$29,580	**$35,836**
	Paper and ink	12,949	12,093	12,489	19,669	**22,126**
	Depreciation	822	769	668	1,607	**2,055**
	Amortization				1,333	**1,334**
	All other	11,073	11,487	12,175	16,669	**19,065**
	Total operating costs	$45,831	$46,292	$47,687	$68,858	**$80,416**

Operating Revenue 1973



69% Star Advertising

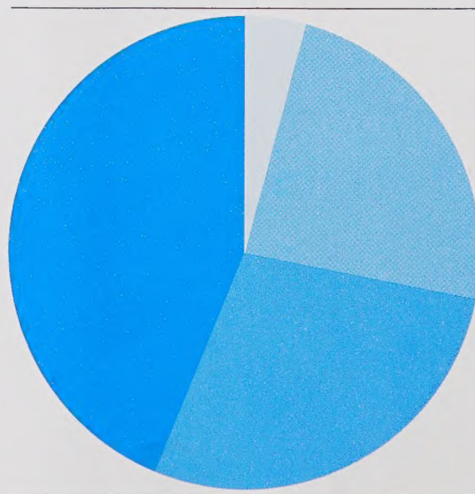
18% Star Circulation

87

7% Printing and Other Revenue

6% Advertising and Circulation—Other

Operating Costs 1973



44% Employee Costs

28% Paper and Ink

24% All Other Costs

4% Depreciation and Amortization

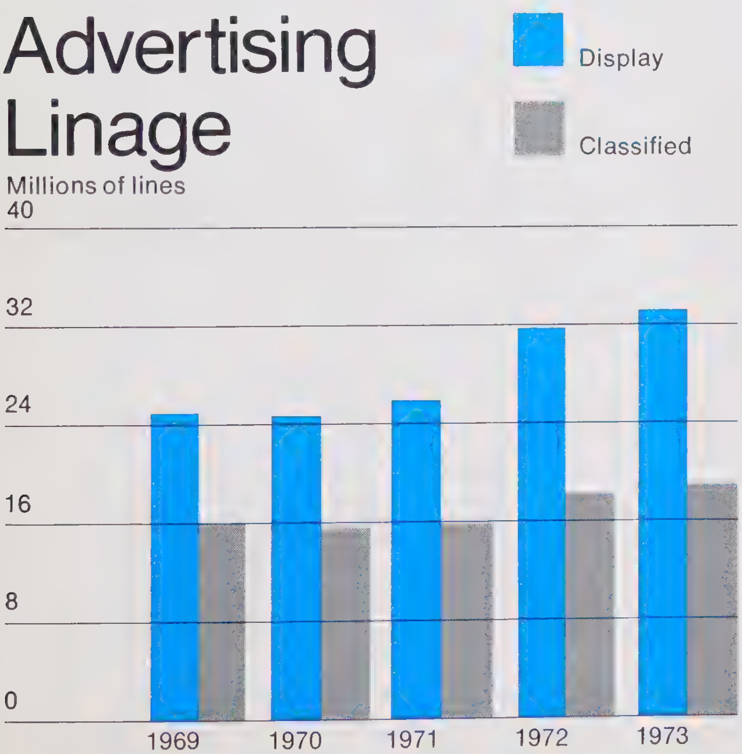
		1969	1970	1971	1972	**1973**
Star Advertising Linage (thousands of lines)	Display	24,732	24,624	25,568	31,561	**33,194**
	Classified	15,957	15,513	15,597	18,033	**18,692**
	Total	40,689	40,137	41,165	49,594	**51,886**

		1969	1970	1971	1972	**1973**
Star Circulation (12-month average)	Monday to Friday	369,303	376,622	378,526	511,542(1)	**512,900(2)**
	Saturday	464,565	488,676	499,404	705,087(1)	**747,456(2)**

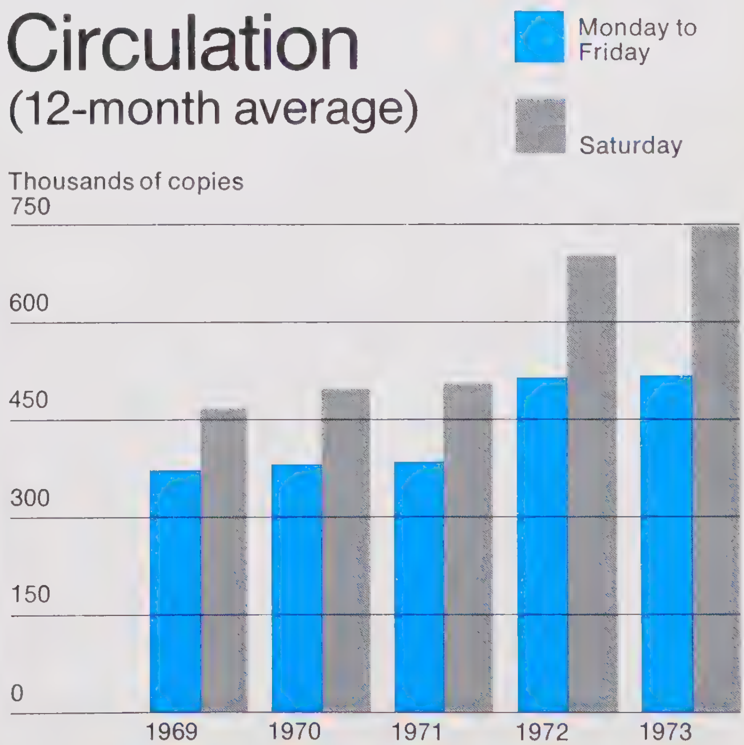
(1) The 11-month period (November 1971 to September 1972) was used for 1972 because of a substantial increase in circulation beginning on November 1, 1971.

(2) Circulation subject to audit.

Advertising Linage



Circulation
(12-month average)



Toronto Star Limited

(Incorporated under the laws of Ontario)
and its subsidiaries

Consolidated Balance Sheet

September 30, 1973
(with comparative figures at September 30, 1972)

Assets	1973	1972
Current:		
Cash	$ 505,000	$ 813,000
Demand deposit and marketable securities at cost, which approximates market	8,239,000	5,345,000
Receivables — trade	10,964,000	9,524,000
Receivables — other	2,088,000	1,663,000
Inventories, at cost	1,503,000	1,311,000
Prepaid expenses	1,093,000	1,095,000
Total current assets	24,392,000	19,751,000
Investments and non-current receivables (note 1)	18,949,000	18,812,000
Property, plant and equipment (note 2), **at cost:**		
Land	3,271,000	3,185,000
Buildings and leasehold interests	4,266,000	3,972,000
Presses and associated equipment	15,337,000	13,033,000
Non-press equipment and vehicles	12,941,000	10,120,000
	35,815,000	30,310,000
Less accumulated depreciation	7,867,000	5,688,000
Total property, plant and equipment	27,948,000	24,622,000
Other assets:		
Subscription list and plant rental commitment (note 4) at amortized cost	9,333,000	10,667,000
Total assets	$80,622,000	$73,852,000

On behalf of the Board:

Beland Honderich

Director

B. A. Hindmarsh

Director

Liabilities and Shareholders' Equity	1973	1972
Current:		
Accounts payable and accrued liabilities	**$ 9,064,000**	$ 7,947,000
Taxes payable	**5,041,000**	1,051,000
Dividends payable	**276,000**	315,000
Current portion of debt	**1,437,000**	2,141,000
Total current liabilities	**15,818,000**	11,454,000
Non-current debt (note 5)	**22,536,000**	28,804,000
Deferred income taxes	**4,567,000**	3,196,000
Minority interest in subsidiaries	**42,000**	
Employees' shares subscribed	**2,312,000**	1,710,000
Shareholders' equity:		
Share capital (note 6)		
Issued and outstanding: 7,366,609 shares (1972 — 7,206,405)	**2,695,000**	1,540,000
Retained earnings (note 3)	**32,652,000**	27,148,000
Total shareholders' equity	**35,347,000**	28,688,000
Total liabilities and shareholders' equity	**$80,622,000**	$73,852,000

(See accompanying notes)

Toronto Star Limited
and its subsidiaries

Consolidated Statement of Income
Year ended September 30, 1973
(with comparative figures for 1972)

	12,589,000	7,921,000
	1973	1972
Revenue:		
Advertising and circulation — The Star	**$82,192,000**	$71,497,000
Advertising and circulation — other	**5,857,000**	3,206,000
Printing and other	**6,732,000**	4,721,000
Total operating revenue	**94,781,000**	79,424,000
Operating costs:		
Employee costs	**35,836,000**	29,580,000
Paper and ink	**22,126,000**	19,669,000
All other	**19,065,000**	16,669,000
Depreciation (note 2)	**2,055,000**	1,607,000
Amortization (note 4)	**1,334,000**	1,333,000
Total operating costs	**80,416,000**	68,858,000
Operating profit	**14,365,000**	10,566,000
Financial:		
Financial expense	**1,860,000**	2,558,000
Less investment revenue	**1,493,000**	1,293,000
Net financial expense	**367,000**	1,265,000
Income before income taxes	**13,998,000**	9,301,000
Income taxes	**6,881,000**	4,655,000
Net income	**$ 7,117,000**	$ 4,646,000
Earnings per share	**97¢**	64¢

(See accompanying notes)

Toronto Star Limited

and its subsidiaries

Consolidated Statement of Retained Earnings

Year ended September 30, 1973
(with comparative figures for 1972)

	1973	1972
Retained earnings, beginning of year as previously reported	**$27,569,000**	$23,643,000
Deduct goodwill acquired prior to beginning of year (note 3)	**421,000**	365,000
Retained earnings, beginning of year as restated	**27,148,000**	23,278,000
Add net income for the year	**7,117,000**	4,646,000
	34,265,000	27,924,000
Deduct:		
Dividends (note 7)	**1,099,000**	720,000
Goodwill acquired during the year (note 3)	**514,000**	56,000
	1,613,000	776,000
Retained earnings, end of year	**$32,652,000**	$27,148,000

(See accompanying notes)

Auditors' Report

To the Shareholders of Toronto Star Limited:

We have examined the consolidated balance sheet of Toronto Star Limited and its subsidiaries as at September 30, 1973 and the consolidated statements of income, retained earnings, and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change in accounting principle explained in note 3 to the consolidated financial statements.

Clarkson, Gordon & Co.

Chartered Accountants
Toronto, Canada,
November 23, 1973

Toronto Star Limited

and its subsidiaries

Consolidated Statement of Source and Application of Funds

Year ended September 30, 1973 (with comparative figures for 1972)

	1973	1972
Source of funds:		
From operations — Net income for the year	**$ 7,117,000**	$ 4,646,000
Add charges to income which did not reduce working capital:		
Depreciation and amortization	**3,389,000**	2,940,000
Deferred income taxes	**1,371,000**	946,000
Other		32,000
Total funds from operations	**11,877,000**	8,564,000
Less dividends	**1,099,000**	720,000
Funds from operations reinvested	**10,778,000**	7,844,000
Debt funds		1,938,000
Employees' shares subscribed	**1,273,000**	1,078,000
Total source of funds	**$12,051,000**	$10,860,000
Application of funds:		
Debt reduction	**$ 6,735,000**	$ 2,087,000
Fixed assets (net)	**3,996,000**	5,879,000
Acquisition of net assets (other than working capital) of previously 50% owned companies	**468,000**	
Increase in working capital	**277,000**	2,583,000
Other	**575,000**	311,000
Total application of funds	**$12,051,000**	$10,860,000

(See accompanying notes)

Notes to Consolidated Financial Statements

September 30, 1973

1. Investments and non-current receivables

As at September 30, investments and non-current receivables consisted of:

	1973	1972
First Mortgage Sinking Fund Bonds due December 31, 2000 (a)	**$11,480,000**	$11,578,000
Mortgage receivable due 1978 (b)	**5,963,000**	5,963,000
Equities in 50% owned companies	**350,000**	768,000
Non-current receivables	**1,156,000**	503,000
	$18,949,000	$18,812,000

(a) The First Mortgage Sinking Fund Bonds are held on the One Yonge Street building, and represent approximately one-half the total of such bonds outstanding. This investment is pledged as collateral for the Company's 5½% Sinking Fund Bonds.

(b) The Mortgage receivable is a first mortgage on the Company's former property at 80 King Street West. Under an agreement with the builder-owner of the One Yonge Street building, $4.5 million of the mortgage receivable is expected to be converted in 1974 into promissory notes to be repaid over the period to 2001, and to be secured by a second mortgage on the One Yonge Street building. It is also proposed that the balance of the present mortgage receivable be converted into a bank-guaranteed note due in 1978. The proposed 1974 re-investment is subject to approval under the trust deed covering the Company's 5½% Sinking Fund Bonds.

2. Property, plant and equipment

(a) Lease commitments —

The Company has entered into a lease of the building at One Yonge Street expiring in 2001 at an annual rental of approximately $2.8 million plus the payment of all municipal taxes, maintenance and other operating costs, which lease forms part of the security given by the builder-owner to finance the construction of the building. The builder-owner has leased back from the Company the whole of the building at the same rental and terms and the Company has leased a portion of the building at an annual rental of $1.6 million plus taxes and costs relating to the leased portion.

(b) Fixed asset programs —

The Company is planning programs which, when completed, will result in further additions to fixed assets of approximately $3 million.

(c) Depreciation policy —

The cost of plant and equipment is depreciated using various rates and methods depending on the estimated useful lives of the assets. The rates and methods used for major depreciable assets are:

Presses and associated equipment — straight line method over 15 years

Non-press equipment — straight line method over 12½ years or 20% diminishing balance method.

3. Change in accounting principle

Prior to 1973 the Company carried goodwill in its accounts at cost. At September 30, 1973 the Company adopted the accounting principle of charging goodwill to retained earnings at the date of acquisition. Accordingly, retained earnings at September 30, 1972 have been restated by $421,000 to reflect the retroactive effect of the write-off of goodwill as at the date of acquisition. Of the $421,000, $56,000 was acquired during 1972 and has been charged to retained earnings during the period. The remaining $365,000 is applicable to years prior to 1972 and has been charged to retained earnings as at that date.

4. Subscription list and plant rental commitment

Under the terms of an agreement (made in September 1971) the Company acquired the subscription list of the Toronto Telegram and use of its plant facilities for a two-year period at a total cost of $12 million. Amortization charged against operations in 1972 and 1973 included a portion of the $12 million expenditure based on the anticipated annual costs required to replace the capacity available at the Telegram plant in 1972 and 1973. The balance is being amortized over thirty years commencing in 1972.

5. Non-current debt

As at September 30, non-current debt consisted of:

	1973	1972
Bank loans due 1975-77 with interest at prime to prime + 1%	**$13,300,000**	$17,950,000
5½% First Mortgage Sinking Fund Bonds due 1978	**3,588,000**	4,075,000
Other debt due 1975-81 with interest at 7½%-9½%	**5,648,000**	6,779,000
	$22,536,000	$28,804,000

Non-current debt repayment requirements amount to $11,078,000 in fiscal 1975, $5,817,000 in 1976, $2,871,000 in 1977, $2,501,000 in 1978 and $269,000 in 1979-81. Interest on debt amounted to $1,811,000 in 1973 ($2,472,000 in 1972).

6. Share capital

Information with respect to the share capital of the Company, and certain conditions relating to the rights of each class of shares, is set out below. References to numbers of shares reflect the sub-division, pursuant to Articles of Amendment obtained in 1973, of all classes of shares other than Class A shares on a three for one basis.

(a) Restrictions on transfers —

The registration of a transfer of shares may be refused if such transfer could jeopardize either the ability of the Company to engage in broadcasting or its status as a Canadian newspaper.

(b) Authorized, issued and outstanding shares —

	Shares Authorized	Issued and Outstanding
Class A shares, par value $1, redeemable at par	1,890,554	
Class B shares, without par value Class C shares, without par value	10,800,000	5,566,609
Class D shares, without par value Common shares, without par value	3,600,000	1,800,000
	14,400,000	7,366,609

(c) Conversion privileges —
(i) Class B shares may be converted at any time into Class C shares on a share for share basis.
(ii) Class C shares may be converted at any time into Class B shares on a share for share basis.
(iii) Class D shares may be converted at any time into common shares on a share for share basis.

(d) Dividend entitlements —
(i) Class A shares are entitled to non-cumulative preferential cash dividends at the rate of 3% per annum.

(ii) Class B shares are entitled to non-cumulative preferential cash dividends aggregating 7.5¢ per share per annum, payable 1.875¢ per share quarterly. After payment of the preferential dividend for any quarter on the Class B shares, dividends of up to 1.875¢ or its equivalent per share may be paid on Class C, D and common shares outstanding. Whenever dividends of 7.5¢ or its equivalent per share have been paid in any calendar year on the Class B, C, D and common shares, all further dividends declared in such calendar year shall be declared on Class B, C, D and common shares without preference.

(iii) Provision is made whereby dividends on Class C and D shares may be paid in the form of tax-deferred dividends; in this event, the conditions attaching to the Class C and D shares provide that a suitable adjustment be made for taxes, if any, payable by the Company with respect to such dividends.

(iv) Under the trust deed relating to the Company's 5½% Sinking Fund Bonds, distributions to shareholders (as defined) are restricted to the extent that such distributions would reduce consolidated net current assets (as defined) below $3,500,000.

(e) Voting privileges —
Class D shares and common shares have full voting rights under all circumstances; Class A shares have no general voting rights. Class B and C shares are entitled to general voting rights only after the Company has failed to pay quarterly dividends of 1.875¢ per share, or its equivalent, in each of eight consecutive quarters.

(f) Employees' Share Purchase Plan —
In November 1970 the Company introduced an Employees' Share Purchase Plan whereby employees may subscribe for Class B shares to be paid for through payroll deductions over two-year periods at a purchase price which is the lower of:
(i) 95% of the market value on the entry date; and
(ii) the market value at the end of the payment period.

600,000 unissued Class B shares were reserved for subscription under this plan. As at September 30, 1973, the position of the plan was as follows:

Shares issued	141,715
Subscriptions outstanding	147,559
Unissued shares available for future subscriptions	310,726
	600,000

Outstanding subscriptions were as follows:

Entry dates	Market value of Class B shares (as subdivided) on entry dates	Subscriptions Outstanding
December 2, 1971	$12.08	87,945
March 14, 1973	$23.00	59,614
		147,559

(g) Shares issued and redeemed during the year —
156,687 Class A shares were issued as stock dividends to Class C and D shareholders, and were redeemed at par.
135,310 Class B shares were issued for a total cash consideration of $671,000 under the Employees' Share Purchase Plan.
24,894 Class B shares, valued at $484,000, were issued as part of a total consideration of $518,000 for the purchase of additional 30% interests in two previously 50% owned companies. Consideration received included $71,000, being a 30% interest in $237,000 of net asset value (including $67,000 of goodwill) of the companies acquired. The additional $447,000 consideration paid was ascribed to goodwill.

7. Dividends

During the year the Company declared dividends of 15¢ per Class B and common share and 85% of this amount per Class C and Class D share. With respect to dividends on the Class C and Class D shares the Company paid a tax of 15% of 15¢. The amount recorded as dividends in the consolidated statement of retained earnings includes the dividends paid plus the related tax.

8. Pension plans

At September 30, 1973 total unamortized past service costs under the Company's pension plans approximated $1,275,000. These past service costs are being amortized principally over a 25-year period from the dates at which such costs were established.

9. Statutory information

The expenditures for 1973 include remuneration of $493,000 (1972 — $499,000) of Directors (including their compensation as officers) and senior officers.

10. Acquisition commitments

(a) Acquisition of Comac Communications Limited —
On November 1, 1973 the Company completed the purchase of 51.3% of the then-issued common shares of Comac Communications Limited for approximately $1.5 million. Pursuant to the agreement for purchase of the shares, the Company will, in the near future, offer to purchase the remaining common shares of Comac. If all shares (including unissued shares subject to options) are tendered under this offer, the Company will be required to make a further investment in Comac of approximately $1.8 million. In addition, prior to September 30, 1973 the Company had advanced $600,000 to Comac in the form of a loan that is convertible at the Company's option into common shares of Comac.

(b) Acquisition of an interest in Keeble Cable Television Limited —
The Company has entered into a conditional agreement to purchase 50% of the common and preference shares, as well as 50% of a series of income debentures, issued or to be issued, of Keeble Cable Television Limited for a total consideration of approximately $2.9 million. Under the agreement, the Company has agreed to invest a further $3 million in income debentures of Keeble Cable with the proceeds to be used for development of new cable systems or investment in existing systems not presently licensed to Keeble Cable. The purchase agreement is subject, among other things, to the approval of the Canadian Radio-Television Commission. It is anticipated that the Commission will consider the matter in the near future.

11. Research and development commitments

The Company has entered into certain joint research and development programs. Future commitments on such programs amount to approximately $1.5 million to be paid through 1977.

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Toronto Star Limited

One Yonge Street, Toronto, Canada
M5E 1E6

Toronto Star Limited

Interim Report to Shareholders

for the six months ended March 31, 1973

Canecorp

TO OUR SHAREHOLDERS:

The Consolidated Statement of Income (unaudited) of Toronto Star Limited for the 6 months ended March 31, 1973, and the corresponding period of 1972, is set forth below.

Revenue from operations increased $9,184,000 or 25% over the corresponding 1972 period, reflecting substantial gains in both advertising and circulation revenues.

As a result, net income for the 6 months, at $3,531,000 or 48¢ per share, was appreciably higher than in the same period in 1972 when earnings were reduced by non-recurring expenses involved in expanding production and distribution to service former Telegram readers. Net income for the first 6 months of 1972 was $1,714,000 or 24¢ per share.

The outlook for the balance of the year is favorable although it is unlikely that net income for the second half of the fiscal year will match the first 6 months' results. Delivery costs will increase in July with the introduction of delivery depots and associated changes in printing and distribution procedures.

Negotiations between the Company and its six unions representing 1,700 of its 2,400 employees have now reached the conciliation stage. The unions are seeking substantial wage increases as well as increased benefits.

As announced in April, we intend to make an offer to purchase 50% of the common and preferred stock of Keeble Cable Television Limited. The offer will be subject to the approval of the Canadian Radio-Television Commission. Keeble Cable operates cable systems in Mississauga and northwest Toronto.

Beland Honderich

May 4, 1973

BELAND H. HONDERICH
President and Publisher

SUMMARY OF CONSOLIDATED INCOME FOR THE SIX MONTHS ENDED MARCH 31, 1973 and 1972

	1973	1972
Total operating revenue	$45,808,000	$36,624,000
Provision for depreciation and amortization	1,730,000	1,147,000
Interest expense	905,000	1,055,000
Investment revenue	698,000	581,000
Income taxes	3,744,000	1,980,000
Net income	3,531,000	1,714,000
Per share (after subdivision—note):		
Net income	48¢	24¢
Dividends	7½¢	3¾¢

Note—Per share figures for 1972 and 1973 reflect a 3 for 1 subdivision of Class B, C, D and common shares approved by Shareholders on February 15, 1973.

SOURCE AND APPLICATION OF FUNDS FOR THE SIX MONTHS ENDED MARCH 31, 1973 and 1972

		1973	1972
Source of funds:			
From operations—			
Net income		$ 3,531,000	$ 1,714,000
Add charges to income which did not reduce working capital:			
Depreciation and amortization		1,730,000	1,147,000
Deferred income taxes		224,000	162,000
Total funds from operations		5,485,000	3,023,000
Less Dividends		547,000	270,000
Funds from operations reinvested		4,938,000	2,753,000
Debt funds		—	6,836,000
Employees' shares subscribed		1,176,000	1,078,000
Decrease in working capital		4,367,000	—
Other		99,000	—
		$10,580,000	$10,667,000
Application of funds:			
Acquisition of net assets (other than working capital) of previously 50% owned companies—			
Net non-current assets acquired	$952,000		
Less Class B shares issued	484,000	$ 468,000	
Purchase of fixed assets (net)		1,049,000	$ 2,110,000
Debt reduction		9,035,000	—
Increase in working capital		—	8,343,000
Other		28,000	214,000
		$10,580,000	$10,667,000